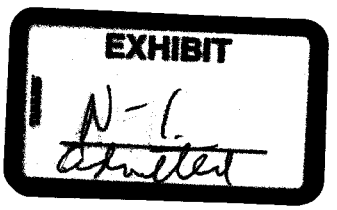
Transcript Exhibit(s)

Docket #(s): RE-00000C-94-0165

E-01787A-98-0465

Exhibit # : N1

BEFORE THE ARIZONA CORPORATION COMMISSION



CARL J. KUNASEK
Chairman
JIM IRVIN
Commissioner
RENZ D. JENNINGS
Commissioner

IN THE MATTER OF COMPETITION IN THE PROVISION OF ELECTRIC SERVICES THROUGHOUT THE STATE OF ARIZONA.	)))))	DOCKET NO. RE-00000C-94-0165

Direct Testimony of

David Berry

Regarding Stranded Costs

On Behalf of

Navopache Electric Cooperative, Inc.

June 14, 1999

Q. Please state your name, position, and business address.

A. My name is David Berry. I am an Executive Consultant with Resource Management International, Inc. (RMI). My business address is 302 North First Avenue, Suite 810, Phoenix, Arizona 85003.

Q. Whom are you representing in this matter?

A. I am representing Navopache Electric Cooperative, Inc. (Navopache).

Q. What are your qualifications to testify as an expert witness?

A. My qualifications are summarized in Exhibit DB-1.

Q. What is the purpose of your testimony?

A. In Decision No. 61677, and in a Procedural Order dated April 21, 1999, the Commission required Affected Utilities, as defined in A.A.C. R14-2-1601, to submit supplements or amendments to their stranded cost filings submitted previously. The Commission also allowed Affected Utilities to select from among five options for determining their stranded costs. My testimony describes Navopache's stranded costs and presents Navopache's proposed method for recovering stranded costs.

Exhibit DB - 2 presents Navopache's plan for stranded cost recovery. Navopache requests Commission approval of its plan for stranded cost recovery and of its stranded cost recovery charge.

Q. Please describe Navopache.

A. Navopache is a rural electric cooperative that distributes electricity to its members. As a cooperative, Navopache is owned by its members who are its customers. There are no shareholders as there would be in the case of an investor owned utility. Navopache purchases all of its power supply from Plains Electric Generation and Transmission Cooperative, Inc. (Plains) under a wholesale power contract dated November 16, 1978, as amended. It has about 24,000 members located in Navajo, Apache, Greenlee, and Gila Counties, Arizona, and Catron County, New Mexico. Its service area is rural and it serves only 8.6 members per mile of distribution line. In 1998, Navopache's members consumed about 298 million kWh of electricity.

Q. Did Navopache previously make a filing regarding stranded cost?

A. Yes. In its filing of August 21, 1998, Navopache indicated that it had insufficient information to make a fair and accurate determination of its stranded costs. Navopache also indicated, among other things, that:

- Navopache purchases all of its power and energy requirements from Plains.
- Plains is not subject to the jurisdiction of the Arizona Corporation Commission.
- Plains had not communicated to Navopache the amount of its stranded costs.
- Navopache has invested in jurisdictional assets such as meters and metering equipment, and billing and accounting systems that may be become obsolete and may require replacement, modification, or disposal as a result of A.A.C. R14-2-1601 *et seq.*
- Navopache has no shareholders to share the risks related to the introduction of competition.

Q. Did Staff review Navopache's previous filing?

A. Yes. In a Staff Report dated November 13, 1998, Staff recommended that, upon quantification of Plains' stranded costs, the Commission should allow a subsequent filing by Navopache to determine a pass-through mechanism applicable to its distribution customers. Further, with regard to distribution - related stranded costs, Staff concluded that Navopache is not precluded from requesting reasonable costs of operation in the context of a distribution rate case.

Q. Does Navopache now have sufficient information to determine its share of Plains' stranded costs?

A. Yes.

Q. Please summarize Navopache's stranded cost situation.

A. Navopache's generation-related stranded costs stem from the stranded costs of its power supplier, Plains. During 1998, Plains conducted a bidding process to sell its assets and to obtain market-based rates for its Member Cooperatives. Plains' stranded costs have been determined by this bidding process. **Further, as a result of the bidding process, Navopache is able to significantly reduce its purchased power costs while at the same time paying its share of Plains' compensation for stranded costs.** In this filing, Navopache requests that the Commission determine that Navopache's share of Plains' stranded cost is $11,785,410. Navopache further requests that the Commission permit Navopache to ensure that consumers who select a power supplier other than Navopache pay their fair share of these stranded costs over a ten year time period.

Q. Decision No. 61677 provides for five options for stranded cost recovery. What method is Navopache proposing?

A. Navopache's circumstances lead it to propose Option 5, the alternative methodology. Plains' stranded costs have been determined by Plains' auction and sale of its assets (Option 1).

Q. How did Plains auction its assets?

A. During 1998, Plains solicited proposals to acquire its assets. The subsequent bidding process and selection of a winning bid established Plains' stranded costs.

Q. Please describe the bidding process.

A. Plains engaged Houlihan Lokey Howard & Zukin Financial Advisors (Houlihan) to explore restructuring options available to Plains, conduct a bidding process, and evaluate the bids.[1] On May 29, 1998, Houlihan requested interested parties to submit proposals to merge with or purchase all or a portion of the assets of Plains. Eighteen responses were received. Following a review of these initial proposals, on July 31, 1998, six firms were requested to provide definitive offers for Plains' assets. Houlihan reviewed the six offers and recommended the joint proposal of Tri-State Generation and Transmission Association, Inc. (Tri-State) and Public Service Company of New Mexico (PNM) as the best proposal. In December 1998 and March 1999, the Plains Board of Trustees approved the offer from Tri-State and PNM. Houlihan concluded that the Tri-State/PNM proposal was superior because, among other reasons, it offered substantially lower rates to Plains' Members than Plains' existing rates, it offered a greater level of certainty regarding future rates than competing proposals where future rates may be higher than initial rates, and it offered repayment in full to Plains' creditors with no reduction in interest rates or other changes in terms.[2]

Q. Please describe the features of the joint Tri-State/PNM proposal.

A. The joint proposal contains many provisions. Among these provisions are the following:

---

[1] Much of the process employed by Plains is subject to confidentiality agreements. My discussion is based on publicly available information presented by Plains and other parties before the New Mexico Public Regulation Commission.

[2] Plains' long term debt consists of mortgage notes payable to the Federal Financing Bank, the Rural Utilities Service, and the National Rural Utilities Cooperative Finance Corporation, and pollution control revenue refunding bonds. At the end of 1997, long term debt was $414 million.

- Plains will merge with Tri-State; Tri-State will be the surviving entity and Plains will cease to exist. Tri-State will assume all of the indebtedness, obligations, and other liabilities of Plains (except those assumed by PNM).
- PNM will acquire some of the assets of Plains.
- Plains' Member Cooperatives can select either Tri-State or PNM as their power supplier.
- Member Cooperatives selecting Tri-State will obtain service under Tri-State's rates and must continue that service for the duration of their existing power supply contracts with Plains (through December 31, 2020 in the case of Navopache).
- Member Cooperatives selecting PNM as their power supplier will have 25 year contracts but can terminate their contracts, with notice, after ten years.
- Member Cooperatives selecting Tri-State must pay their share of a $57 million prepayment prior to the merger in order to be eligible to receive Tri-State's rates (which are lower than Plains' rates). The $57 million represents a payment sufficient to keep current Tri-State members financially whole while charging Plains' members the lower Tri-State rates, taking into consideration the estimated savings resulting from the merger and proceeds from the sale of assets to PNM.
- Member Cooperatives selecting PNM must pay Plains, prior to the closing of the merger of Tri-State and Plains, $234 per kW of coincident peak demand for that Member during 1998; PNM will advance funds to Plains' Members to make this payment. The amount of $234 per kW is intended to keep Tri-State whole as a result of Navopache selecting PNM as its power supplier. Thus, the amount of $234 per kW represents a Member Cooperative's share of Plains' stranded costs if that Member selects PNM.

Q. Which power supplier did Navopache select?

A. Navopache selected PNM as its power supplier and is negotiating a power supply agreement and transmission agreement with PNM. As of the date of this testimony the Navopache Board of Directors had approved the power supply agreement but the transmission agreement was not finalized.

Q. Why did Navopache select PNM?

A. Navopache selected PNM for the following reasons:

- The PNM contract gives Navopache greater flexibility in dealing with uncertainty about future prices and markets because it enables Navopache to terminate the contract after 10 years instead of after 22 years.
- RMI evaluated the costs of both the PNM and Tri-State options under different scenarios and the expected cost of the PNM contract for Navopache (including transmission, ancillary services, and stranded cost recovery), over a ten year period, is lower than the expected cost of power supply from Tri-State over ten years.

- PNM offers fixed rates for the majority of power and energy purchased while the Tri-State offer does not have any fixed rates.
- The PNM contract links the price of a portion of the power supply to spot market prices, enabling Navopache to take advantage of low spot market prices and requiring Navopache to manage risks of potentially high spot market prices.
- The agreement with PNM explicitly takes into account Arizona's and New Mexico's programs for retail electric competition.
- The PNM contract gives Navopache greater control over its resource decisions than it would have as one member among over 40 members of a large generation and transmission cooperative.

Q. What are Navopache's expected rates for power supply under the PNM power supply agreement?

A. Navopache will experience very large savings for its members as a result of the PNM contract. **In particular, Navopache's power supply costs are expected to be less than $0.04 per kWh, as compared to $0.0545 per kWh paid in 1998 under the Plains contract.** Exhibit DB-3 shows RMI's base case forecast of Navopache's power supply costs for the ten years of the contract with PNM.[3] The forecast of power supply prices includes transmission, ancillary services, and Navopache's share of Plains' compensation for stranded costs.

Q. How have Plains' stranded costs been mitigated?

A. The bidding process results in lower power supply prices while meeting Tri-State's financial obligations as Plains' financial obligations are transferred to Tri-State. Thus, the impact of stranded cost recovery is mitigated by lower power supply costs. For Navopache's 1998 power purchases, the actual bill from Plains was $17.5 million. Had Navopache purchased from PNM under the rates, terms, and conditions of the new power supply contract, Navopache's purchased power costs would have been $11.7 million, a savings of $5.8 million or 33 percent. Thus, even with Navopache's share of Plains' compensation for stranded cost included in PNM's charges, Navopache's purchased power costs decrease greatly.

[3] RMI conducted forecasts under several spot market price scenarios in addition to the base case, namely, low, high, and very high spot market prices.

Q. What is Navopache's share of Plains' compensation for stranded costs under the PNM power supply agreement?

A. Navopache's share of Plains' compensation for stranded costs is approximately $11,785,410.[4] This amount is higher than Navopache's prepayment of power as compensation for stranded costs had it selected Tri-State as its supplier ($9,434,270), but the overall expected cost of power supply (including Plains' compensation for stranded cost) is lower if Navopache selects PNM as its power supplier.

Q. Is the $11.785 million payment for Navopache's share of Plains' stranded cost a reasonable amount?

Yes. I compared $11.785 million to the net revenues lost method making the following assumptions:

- The time horizon is 1999 through 2008 (10 years).
- Plains' average price for power supply to Navopache would decline from its actual 1998 level of $0.05446 per kWh at a real rate of 5 percent per year until 2008 at which time Plains' nominal price would be $0.04174 per kWh.[5]
- The market price for wholesale energy delivered to Navopache's service area is the base case average price paid by Navopache under the Navopache/PNM power supply agreement as estimated by RMI. This stream of prices emanated from a bidding process for Plains involving several large, capable power suppliers, as indicated above.
- The nominal discount rate for calculating present values is 12.75 percent, reflecting the large uncertainty of the net benefits to Navopache of the PNM price relative to the Plains price.
- Consumers in Navopache's service area would need to have delivered to Navopache's distribution system about 318 GWh in 1999, increasing to about 397 GWh in 2008.

Under these assumptions, the present value of Navopache's share of Plains' net revenues lost would be $21.3 million. This amount represents Navopache's share of Plains' stranded cost and it is greater than what Navopache is paying as its share of Plains' compensation for stranded cost.

---

[4] Navopache's share of Plains' compensation for stranded cost is $234 per kW times Navopache's kW demand at the time of Plains' 1998 system peak. The final determination of Navopache's demand was made after negotiation of the rates in the PNM/Navopache contract. The contract indicates that Navopache's share of Plains' compensation for stranded cost is approximately $11,785,517 (Section 2.25) which is based on the final calculation of Navopache's 1998 demand.

[5] Plains faces significant financial difficulty due to the costs of the Plains Escalante Generating Station. Plains believes that, on a stand-alone basis, it would not remain financially solvent. For Plains to remain an independent, financially solvent entity, the average price of its power sales could not decline as rapidly as assumed here. Consequently, this assumption leads to an understatement of Plains' stranded costs.

Thus, because the net revenues lost estimate of Navopache's share of Plains' stranded cost is higher than the amount Navopache is actually responsible for under the PNM/Navopache contract, I conclude that Navopache's payment of $11.785 million as its share of Plains' compensation for stranded cost is reasonable.

Q. Having selected PNM as its power supplier, how does Navopache pay for its share of Plains' compensation for stranded cost?

A. PNM pays $11.785 million to Plains, on behalf of Navopache, immediately before the closing of the merger of Tri-State and Plains. PNM recovers this amount through the charges contained in the Navopache/PNM power supply agreement. The recovery takes place in two types of payments:

- The fixed Part One Demand Charge of $84,178.65 per month ($1,010,144 per year), which yields $7,250,000 in present value (over 10 years at 7 percent interest); Navopache may pay the remaining principal in a lump sum at any time, thereby reducing the Part One Demand Charge to zero.

- A portion of the system power and energy charges, whose present value equals $4,535,410 (= $11,785,410 - $7,250,000). As Navopache purchases power for its standard offer customers, PNM is compensated for this portion of the amount it paid Plains on Navopache's behalf. However, if some of Navopache's customers select a competitive power supplier, system power and energy charges paid by Navopache to PNM for power supplies for standard offer customers would diminish, thereby reducing PNM's recovery of the amount it paid to Plains on Navopache's behalf. So that PNM may recover amounts associated with its payment of Navopache's share of Plains' compensation for stranded cost, Section 8.6 of the contract provides that Navopache pay PNM an amount in proportion to kilowatt hours consumed by Navopache customers who obtain their power from competitive suppliers. The specific amount ("Section 8.6 charge") in the first contract year would be approximately $0.002609 per kWh purchased by Navopache distribution customers from competitive suppliers. The payment amount is calculated assuming an interest rate of 11.51 percent on a principal of $4,535,410 over ten years, or $765,501 per year. The annual dollar amount is then divided by all retail kWh sales in Navopache's service area to obtain the rate per kWh. So that standard offer customers pay the same amount for stranded costs as customers who select competitive power suppliers, the same charge must be imputed to standard offer power supply.

Exhibit DB-4 shows, on an annualized basis, the total of the Part One Demand Charge plus the Section 8.6 charge paid by standard offer customers as part of their rates and by customers who select competitive power suppliers. The Exhibit also shows the remainder of Navopache's expected base case purchased power costs. The sum of the two costs in any year represents the forecast of Navopache's purchased power costs for the base case forecast with competition. Each year,

Navopache's share of Plains' compensation for stranded cost is $1,775,645 ($1,010,144 + $765,501). Navopache's share of Plains' compensation for stranded cost is about 15 percent of Navopache's purchased power cost in the first contract year and declines to about 13 percent in the tenth contract year. Even with the inclusion of Navopache's share of Plains' compensation for stranded cost in Navopache's purchased power cost, Navopache's standard offer customers will see a significant decline in their power supply rates as indicated in Exhibit DB-3.

Q. How does Navopache propose to recover its share of Plains' compensation for stranded costs from its distribution customers who select a competitive power supplier?

A. For customers who select a competitive power supply, Navopache requests approval of a stranded cost recovery charge of **$0.00605** per kWh in the first contract year. In every year of the PNM contract, the annual amount for Navopache's share of Plains' compensation for stranded cost is $1,775,645. In the first contract year, Navopache's forecast kWh sales in the absence of retail electric competition is 293,390 MWh.[6] Dividing the dollars by the kWh sales yields the stranded cost recovery charge. Navopache further requests approval to automatically modify the charge annually as the total kWh sales (including kWh sales by third parties to Navopache's distribution customers) in its service territory change.

Q. Please summarize the calculation of the stranded cost recovery charge of $0.00605 per kWh.

A. Navopache's payment to PNM for Navopache's share of Plains' compensation for stranded cost is divided into two parts. The first part, corresponding to a fixed monthly charge paid to PNM, is $1,010,144 per year. In the first contract year retail demand is expected to be approximately 293,390 MWh. The rate per kWh is therefore $0.003443 per kWh

The second part is $765,501 per year. Using the same expected retail demand in the first contract year yields a rate of $0.002609 per kWh. Navopache pays a commensurate amount to PNM as customers select competitive power suppliers.

Adding the two parts, the stranded cost recovery charge is $0.003443 per kWh plus $0.002609 per kWh equals $0.006052 per kWh.

Q. Does the proposed recovery of Navopache's share of Plains' compensation for stranded cost apply to customers who purchase their power supply from Navopache as well as to customers who select a competitive supplier?

[6] Assumes that Navopache sells about 92 percent of the kWh it purchases, based on 1990 -1998 data.

A. Yes. Customers who obtain their power supply from Navopache will pay for Navopache's share of Plains' compensation for stranded costs in their standard offer rates. Initially, this will occur through the purchased power cost adjustor mechanism which is assessed on a dollars per kWh basis. Customers who select a competitive power supplier will pay their fair share of Navopache's share of Plains' compensation for stranded cost through the charge specified above.

Q. Why do you recommend this particular rate design for recovering Navopache's share of Plains' compensation for stranded cost from customers who select a competitive power supplier?

A. Navopache normally reflects changes in its power supply costs through its purchased power adjustment mechanism which is applied to all customers' kWh usage. Thus, in compliance with Decision No. 60977, stranded costs are allocated to customer classes in a manner consistent with the current rate treatment of those classes.

A kWh charge fairly apportions responsibility for Navopache's share of Plains' compensation for stranded costs among large and small customers and is easy to implement. Many customers do not have demand meters, thus making a kWh charge both more practical than a kW charge and more accurate than a kW charge based on load profiles.

Q. Over what time period does Navopache request implementation of the stranded cost charges indicated above?

A. Navopache requests a recovery period of ten years, which coincides with the initial term of the contract with PNM and reflects the Commission's time period for the financial integrity method.

Q. What are the consequences of denying Navopache's request?

A. If Navopache loses customers to competing power suppliers and is not able to collect revenues from those departing customers to cover their share of the Part One Demand Charge or the Section 8.6 payment to PNM, it may have to collect those charges from its remaining standard offer customers by raising their rates. Navopache has no shareholders from which to collect unrecovered stranded costs.

Q. Decision No. 61677 indicates that Affected Utilities who select Option 5 are required to demonstrate that their proposed plans are in the best interest of all stakeholders. Is Navopache's proposed plan in the best interest of all stakeholders?

A. Yes, for the following reasons:

- All of Navopache's standard offer customers benefit because they get much lower power supply costs than what they pay today even while paying Navopache's share of Plains' compensation for stranded cost.
- Plains benefits by receiving compensation for its stranded costs. This in turn benefits Tri-State with whom Plains will merge and Tri-State's member cooperatives who will not be burdened with paying Plains' stranded costs.
- Lenders benefit because they receive both principal and interest payments on their loans to Plains.
- Navopache's customers who elect to obtain a power supply from a competitive supplier are responsible for paying their fair share of Navopache's share of Plains' compensation for stranded cost.
- PNM benefits because it will recover from Navopache the amount it paid to Plains on Navopache's behalf as Navopache's share of Plains' compensation for stranded cost.
- Navopache's share of Plains' compensation for stranded cost does not over-estimate Plains' stranded costs. Plains' stranded costs were established through a bidding process for Plains' assets.
- Stranded cost recovery (associated with Navopache's share of Plains compensation for stranded cost) is completed in ten years.

Q. The competition rules identify several factors for the Commission to consider in making its determination on stranded cost mechanisms and charges (R14-2-1607(E)). Please indicate how Navopache's proposal bears on each of these factors.

A. The factors listed in the rules and Navopache's responses are presented below.

1. *The impact of stranded cost recovery on the effectiveness of competition.* Stranded cost recovery raises the price of power supply temporarily, thereby reducing consumption of electricity. This effect applies to all power suppliers and all consumers.
2. *The impact of stranded cost recovery on customers of the Affected Utility who do not participate in the competitive market.* The same response applies here as it does to the first factor. Navopache's share of Plains' compensation for stranded cost is included in the power supply cost for standard offer customers.
3. *The impact, if any, on the Affected Utility's ability to meet debt obligations.* As explained above, Navopache's share of Plains' compensation for stranded cost enables Plains and Tri-State to meet the debt obligations of Plains.
4. *The impact of stranded cost recovery on prices paid by consumers who participate in the competitive market.* Stranded cost recovery in the first contract year will impose a charge of $0.00605 per kWh. The share of this charge which falls on consumers (as opposed to suppliers) depends on the price elasticity of demand. In other studies, I have found that a ten percent increase in the price of electricity in Arizona (in constant dollars) is associated with a 4.2 percent decrease in residential electricity consumption per person and a 5.8 percent decrease in commercial and industrial electricity consumption. The fact that demand is not

perfectly inelastic indicates that the consumer's share of the stranded cost recovery charge is less than $0.00605 per kWh.

5. *The degree to which the Affected Utility has mitigated or offset stranded cost.* Navopache's share of Plains' compensation for stranded cost is offset by the large reduction in the price of purchased power as described above.
6. *The degree to which some assets have values in excess of their book values.* The bidding process which Plains went through, as described above, was able to obtain a market-based valuation of Plains' assets, including generation, transmission, and other assets.
7. *Appropriate treatment of negative stranded cost.* Navopache's share of Plains' compensation for stranded cost is not negative.
8. *The time period over which such stranded cost charges may be recovered.* The stranded cost recovery period is ten years, as explained above.
9. *The applicability of stranded cost to interruptible customers.* Interruptible customers enable the power supplier to defer future power plant capacity additions but do not enable the power supplier to "unbuild" existing power plants which have stranded costs associated with them. In Navopache's case, Navopache began providing interruptible service in the mid 1990s but its share of Plains' stranded cost derives from Plains' Escalante Generating Station completed in 1984 and the Algodones Generating Station which has been "mothballed" since the 1980s. Thus, Navopache's interruptible service does not enable either Navopache or Plains to avoid sunk generation costs. Consequently, Navopache proposes to assess its stranded cost recovery charge on customers who selected interruptible service.

Q. Is Navopache's share of Plains' compensation for stranded costs Navopache's only source of stranded costs?

A. Not necessarily. Navopache may incur costs associated with the introduction of retail electric competition. For example, Navopache may have to invest in new billing software or new metering earlier than it would otherwise have had to make such investments in order to meet the requirements of the Commission's competition rule. Therefore, Navopache wishes to reserve the right to request recovery of other competition transition costs in the future as those costs, if any, become known.

Q. Would Navopache need to modify its stranded cost recovery implementation plan if the merger between Plains and Tri-State does not occur or if other conditions are not met for the PNM/Navopache agreement to go into effect?

A. Yes. The power supply agreement contains several conditions which must be met if the agreement is to be implemented. These conditions are listed below:

- Receipt of all required regulatory approvals of the power sale agreement and the transmission agreement.

- Receipt of all consents and approvals from lenders including the termination and release of Navopache's obligations to Plains or Tri-State except for payments for power and energy supplied by Plains prior to the termination of the Plains/Navopache contract.
- Closing of the merger between Tri-State and Plains. The merger is now expected to close in late 1999.
- Payment to Plains of Navopache's share of Plains' compensation for stranded cost with immediately available funds provided by PNM.
- Delivery to Navopache by Plains and Tri-State of a release of all Navopache obligations except payment for power and energy supplied by Plains prior to the termination of the Plains/Navopache contract.
- Assignment to PNM of the Plains - APS transmission contract and the Plains-SRP transmission contract, and the purchase by PNM of certain facilities.
- The delivery of a certificate by PNM and an opinion by PNM's counsel stating that they are not aware of any fact or event which has occurred or failed to occur since the effective date that has or may a have a material adverse effect on the ability of PNM to perform under the Agreement.

If the agreement cannot be implemented, Navopache will not be able to determine its stranded costs until a new stranded cost amount is determined by Plains or by some other means.

Q. Could the Navopache/PNM power supply agreement be modified, thereby affecting stranded costs or stranded cost recovery?

A. Yes. Regulators such as the Federal Energy Regulatory Commission may require revisions in the contract. If such changes are acceptable to PNM and Navopache, aspects of stranded cost may be affected. If such changes are not acceptable to PNM and Navopache, the PNM/Navopache contract expires. Therefore, Navopache requests that it be allowed to amend this filing or to make future filings to reflect material changes in its power supply arrangements that bear upon stranded cost or stranded cost recovery.

Q. Does this conclude your direct testimony?

A. Yes.

QUALIFICATIONS OF DAVID BERRY

Education:

B.A. Syracuse University (Geography), 1967
M.A. University of Pennsylvania (Regional Science), 1969
Ph.D. University of Pennsylvania (Regional Science), 1973

Experience:

1997-present **Resource Management International, Inc., Executive Consultant.**
Conduct economic analyses for buyers and sellers of energy services and negotiate energy contracts.

1985-1996 **Arizona Corporation Commission, Chief Economist and Chief, Economics and Research.**
Managed section responsible for economic and policy analyses of regulatory matters and presented recommendations to Commission.

1979-1985 **Abt Associates, Senior Analyst.**
Managed and conducted economic research for public and private sector clients on hydropower, drinking water contamination, outdoor recreation, infrastructure, and regional economics.

1977-1979 **Department of Urban and Regional Planning, University of Illinois, Visiting Assistant Professor.**

1972-1977 **Regional Science Research Institute, Research Associate**
Conducted research on land use controls and policy, outdoor recreation, and regional economics for federal, state, and local government agencies. Analyzed impacts of urban sprawl and evaluated policies intended to control development.

Other Academic Appointments:

Lecturer, Department of Urban Affairs and Planning, Boston University

Lecturer, Regional Science Department, University of Pennsylvania

Adjunct Professor, Geography Department, Arizona State University

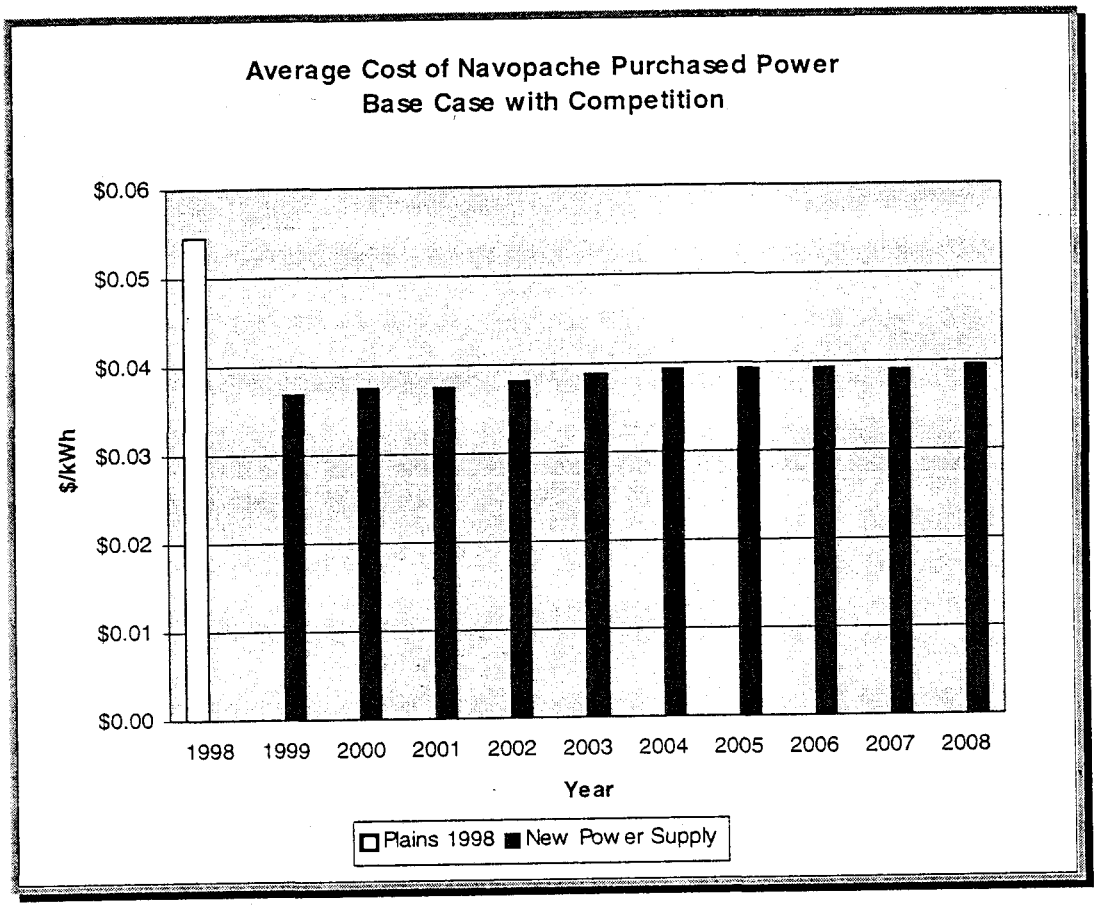
Representative Publications in:

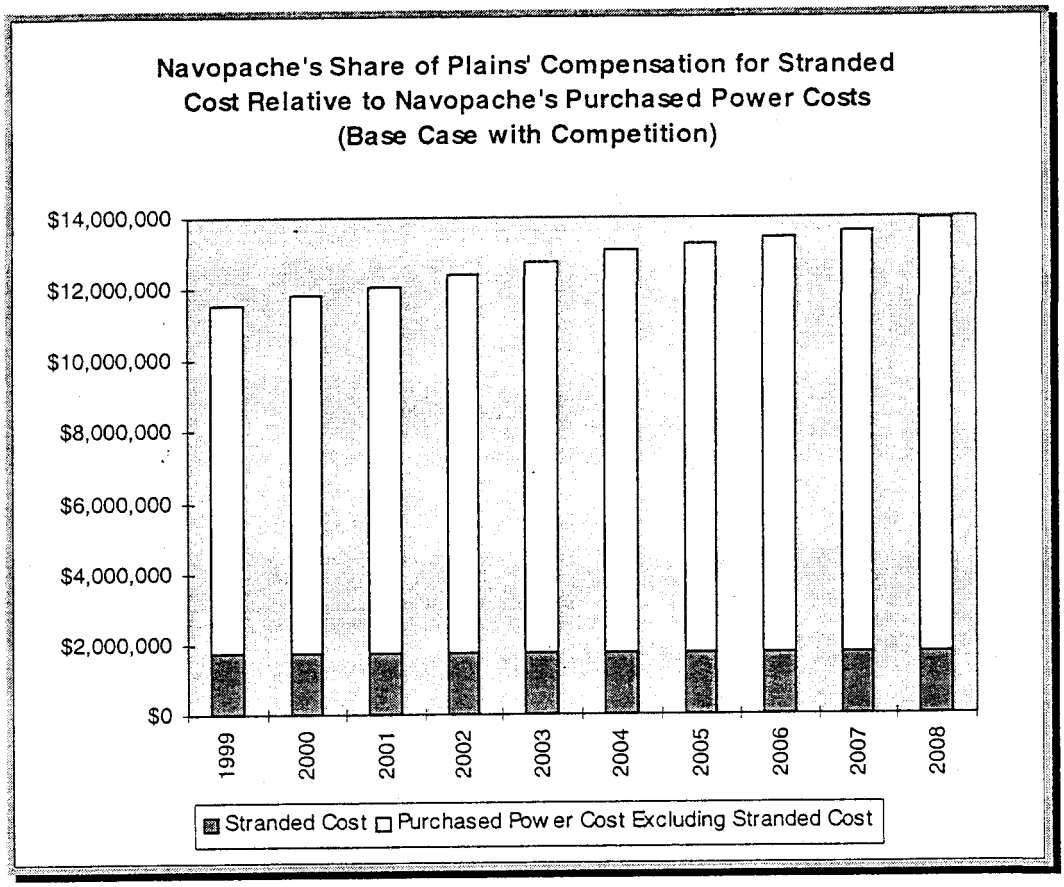
Business Economics, Strategic Planning for Energy and the Environment, Solar Today, Journal of the American Planning Association, The Electricity Journal, Journal of Economic Issues, Home Energy, Energy Policy, Public Utilities Fortnightly, Journal of Environmental Management, Water International, Natural Resources Journal, Policy Sciences, Professional Geographer, Growth and Change, American Journal of Economics and Sociology, Public Management

Navopache Electric Cooperative, Inc.
Implementation Plan for Stranded Cost Recovery

1. Navopache's generation-related stranded costs derive from the stranded costs of its historical power supplier, Plains Electric Generation and Transmission Cooperative, Inc. (Plains).
2. Navopache has not identified any stranded cost associated with regulatory assets.
3. Navopache's share of Plains' compensation for stranded cost is approximately $11,785,410. This amount was determined in a competitive bidding process for Plains' assets conducted during 1998.
4. The winning bidder for Plains' assets is a joint proposal by Tri-State Generation and Transmission Association, Inc. (Tri-State) and Public Service Company of New Mexico (PNM). Plains will be merged into Tri-State.
5. As a result of the bidding process, Navopache is selecting PNM as its power supplier under a contract which permits Navopache to terminate the contract in 10 years.
6. Immediately before the merger of Tri-State and Plains, PNM is advancing to Plains, on Navopache's behalf, Navopache's share of Plains' compensation for stranded cost. PNM recovers Navopache's share of Plains' compensation for stranded cost through the rates it charges to Navopache.
7. Under the PNM contract, Navopache's purchased power costs decrease from $0.0545 per kWh paid in 1998 under the Plains contract to less than $0.04 per kWh, <u>including recovery of stranded costs</u>.
8. On an annualized basis, over ten years, Navopache's share of Plains' compensation for stranded cost is $1,775,645 per year.
9. Navopache normally reflects changes in its power supply costs through its purchased power adjustment mechanism which is applied to all customers' kWh charges.
10. Navopache proposes to initially recover its share of Plains' compensation for stranded cost from all customers through its purchased power cost adjustment mechanism on a per kWh basis. Thus, in compliance with Decision No. 60977, stranded costs are allocated to customer classes in a manner consistent with the current rate treatment of those classes. This recovery plan may be modified in subsequent rate cases.
11. Navopache proposes to initially assess a stranded cost recovery charge of **$0.00605** per kWh. This amount is computed by dividing the annualized amount of $1,775,645 by the forecast kWh sales in the first contract year in the absence of retail electric competition of 293,390 MWh. This charge applies to standard offer service (as part of Navopache's unbundled rates) and to customers who select a competitive power supplier.
12. Navopache further proposes to automatically modify the charge annually as the total kWh sales (including kWh sales by third parties to Navopache's distribution customers) in its service territory change.
13. Stranded cost recovery related to Navopache's share of Plains' compensation for stranded cost starts at the date of initial service under the PNM contract and ends ten years later.

Navopache Will Experience Large Savings in its Purchased Power Costs Under the PNM Contract




Navopache's Share of Plains' Compensation for Stranded Cost Relative to Navopache's Purchased Power Costs (Base Case with Competition)
$14,000,000
$12,000,000
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$0
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
Stranded Cost
Purchased Pow er Cost Excluding Stranded Cost